VZCZCXRO5875
PP RUEHMA RUEHPA
DE RUEHDK #0588/01 0740741
ZNR UUUUU ZZH
P 150741Z MAR 07
FM AMEMBASSY DAKAR
TO RUEHC/SECSTATE WASHDC PRIORITY 7826
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHZK/ECOWAS COLLECTIVE
RUEHLMC/MCC WASHDC

UNCLAS SECTION 01 OF 04 DAKAR 000588

SIPDIS

SIPDIS

STATE FOR EB/IFD/ODF, AF/EPS AND AF/W
TREASURY FOR OASIA - D. PETERS

E.O. 12958: N/A
TAGS: EFIN ECON EAID SG
SUBJECT: SENEGAL'S FY07 BUDGET RELYS ON HIPC SAVINGS AND DOMESTIC
REVENUES TO SUPPORT MORE SOCIAL AND INFRASTRUCTURE PROJECTS

DAKAR 00000588 001.2 OF 004

SUMMARY

¶1. Senegal's FY2007 (January 1 - December 31) budget expenditures of CFAF 1.519 trillion (USD 2.978 billion) represents an overall increase of 7.9 percent over the 2006 budget. For 2007, the Government of Senegal is anticipating revenues of CFAF 1.048 trillion (USD 2.0 billion) from domestic sources, CFAF 69.3 billion (USD 135.8 million) from HIPC and other debt relief savings, and CFAF 262 billion (USD 512 million) from donors. The Government counts on bridging a USD 22 million financing gap with additional assistance from bilateral donors. For 2007, the civil service wage bill, is the largest category for expenditures at CFAF 310.0 billion (USD 607.8 million), reflecting an average 16 percent increase in salaries. By sector, expenses (including personnel costs) for education will take up the largest chunk of Senegal's budget: 41 percent of the operating budget at its disposal, or USD 1.1 billion. Spending on health services is targeted for about 10.6 percent of the operating budget or CFAF 84.5 billion (USD 169 million), slightly higher than the nine percent established as a benchmark by the World Health Organization. Entering 2007 the GOS owes goods and services suppliers at least CFAF 56 billion (USD 112 million).

¶2. Having won reelection, President Wade will likely intensify his "budget allocation by decree" style, with insufficient transparency on either public spending decision-making or actual budget allocations. Senegal has not carried out a comprehensive expenditure review since 1997. At a time when Senegal is without an IMF monitored program, we are also concerned about Senegal becoming re-burdened with new public debt. END SUMMARY.

PROJECTED INCREASE IN EXPENDITURES . . .

¶3. Calling it "challenging", Senior Minister for Economy and Finance Abdoulaye Diop announced Senegal's FY2007 (January 1 - December 31) budget on December 15, 2006. The GOS projects total expenditures of CFAF 1.519 trillion (USD 2.978 billion), an overall increase of 7.9 percent over the 2006 budget, including expenditures derived from the HIPC and multilateral debt forgiveness initiative amounting to CFAF 69.3 billion (USD 138.6 million). This increase is mainly due to a steady increase of 15.1 percent in the operating budget, an increase for the Treasury Special Accounts (STA) and a 6.2 percent increase on capital expenditures. A planned 16.4 percent increase in salaries and benefits and a 15.1 percent increase in all other operating expenses will push the cost of running Senegal's 40 Ministries and its executive, judicial, and legislative branches to CFAF 726 billion (USD 1.452 billion). The GOS must also deal with a projected current budget deficit of CFAF 22 billion (USD 44 million).

¶4. The Special Treasury Accounts (STAs) -- special funds to support various government commitments, including investment guarantees, water and environment funds, and the national retirement funds among others -- increases (12.9 percent), making it the second largest budget item, and includes a 10.2 percent increase in the GOS's contribution to the national retirement fund.

. . . SOME DECREASES ALSO

¶5. Within the STAs, the "Caisse Autonome d'Amortissement" (CAA) -- the debt service fund for servicing internal and external debt -- is budgeted to decrease 26.1 percent over 2006 to CFAF 88 billion (USD 172 million), in large measure due to numerous debt rescheduling and debt forgiveness from both multilateral and bilateral donors. Servicing its external debt will consume 4.6 of Senegal's total budget (both current and capital expenditures). Also, overall budget allocations to the following will decrease: "Conseil d'Etat" (Supreme Court) 17.8 percent, Ministry of Women, Family, Social Development and Women's entrepreneurship (26.1), Ministry of Maritime Transport (19.0), Ministry of Youth (10.1), Ministry of Agriculture (17.2), Ministry of Urban Development (87.5), and Ministry of SMEs (51.1).

PERSONNEL STILL LARGEST SLICE OF OPERATING BUDGET PIE
--- --------
¶6. Looking at Senegal's operating budget on the basis of expense categories reveals the continued high public sector personnel costs. As a share of the operating budget, the wage bill increased slightly from 42.4 percent in FY06 to 42.7 percent in FY07, corresponding to an increase from CFAF 266.3 billion (USD 532.6 million) to CFAF 310.0 billion (USD 620 million), or 31.1 percent of total tax revenues -- well in line with an IMF proposed target of 40 percent. In reaching this goal, the Government was still able to grant civil servants a wage increase of 16 percent by limiting new hiring to school teachers, health workers, and workers in the Ministries of Justice and Interior. Personnel costs for the Presidency are scheduled to increase to CFAF 3.1 billion from CFAF 2.7 billion in 2006, and for the National Assembly to CFAF 3.4

billion from CFAF 2.8 billion in 2006. There is no allocation listed in the budget for the proposed new Senate. [NOTE: Though it is not reflected in GOS budget documents, it is widely reported that in early 2007 President Wade took "special measures" to grant a 50 percent salary increase to Senegal's security apparatus (Army, Customs, Police, and Gendarmes) in advance of the February 25 presidential elections. END NOTE.]

ALLOCATING DEBT RELIEF

¶7. In 2007, other expenditures total CFAF 416.1 billion (USD 815.8 million), an increase of 15.1 percent over previous year. This increase is mainly due to the savings of CFAF 69.3 billion (USD 138.6 million) from HIPC and multilateral debt forgiveness initiative (IADM). Of the saving from this debt relief, CFAF 12.9 is targeted to hire new teachers -- actually contract workers -- and the recruitment of "education volunteers" for the elementary and high schools, who receive a minimum monthly salary of approximately USD 260.

¶8. The remaining CFAF 56.4 billion is projected for building more schools (CFAF 7.2 billion), infrastructure and drainage projects (CFAF 9.0 billion), more health and HIV testing centers (CFAF 7.9 billion), agriculture and hydraulic projects (CFAF 17 billion), rural electrification and mining projects (CFAF 7.3 billion), social development projects (CFAF 2.05 billion), fishing projects (CFAF 3 billion), animal husbandry projects (CFAF 2 billion), and increasing available credit to women in rural areas (CFAF 950 million). [NOTE: In 2006, debt relief savings were initially earmarked exclusively for education, but much of that allocation was turned towards "infrastructure investment," including, no doubt "les Grands Travaux." END NOTE.]

EDUCATION IS TOP PRIORITY

¶9. An examination of the budget allocations by function highlights

education as the GOS's number one policy priority, though publicly released figures provide little detail on programmatic justifications. The Ministry of Education will continue to have 41 percent of the operating (current) budget at its disposal, 49.6 percent (CFAF 106.8 billion or USD 209 million) of which will be spent on personnel costs, while devoting 16.3 percent (CFAF 42.0 billion or USD 82 million) to building new classrooms, broadening access to primary education -- especially for girls -- and hiring new teachers. [NOTE: When the "investment budget" (paras 17-18 is included, spending on education drops to around 20 percent of Senegal's total projected expenditures. END NOTE.]

¶10. Spending on health services is set at about 10.6 percent of the operating budget or CFAF 84.5 billion (USD 169 million), slightly higher than the nine percent established as a benchmark by the World Health Organization. Twenty-five percent or CFAF 21.7 billion of health allocations will be spent on personnel costs, while 29 percent will be used to build hospitals and fund additional workers, 27 percent on operational cost and 19 percent on medicine. During the budget debate in the National Assembly, opposition leaders criticized the GOS for not taking any measures to start up the activities of new hospitals built since 2004 in Kolda, Fatick and Ziguinchor.

¶11. The Ministry of Armed Forces' budget allocation increased by 19.1 percent, reflecting a 250 percent increase in program funding to support troops and purchase equipment and 155 percent increase in supplies and investment. Despite these increases, the military's share of the operating budget remained essentially constant at just 9.2 percent. The budget for the Ministry of Interior increased by 94.8 percent to take into account preparations and administration of 2007 presidential and legislative elections. The Ministries of Economy, Justice, Foreign Affairs, and Agriculture account for 11 percent of the operating budget. None of the remaining Ministries accounts for more than one percent of the total operating budget.

MORE MONEY FOR THE PRESIDENCY

¶12. The operating budget for the Presidency increased by 22.2 percent, to a total of CFAF 14.1 billion (USD 28.2 million), which is greater than the combined operating budgets of the Ministries of Industry, Energy, Commerce, and SMEs. Twenty-two percent of the Presidency's allocation or CFAF 3.1 billion (USD 6.2 million) will support the personnel costs of the estimated 40 "Minister Counselors" and advisors, while 57 percent (CFAF 8 billion) will be used for operational costs and 19 percent for programs. The "investment budget" planned to support President Wade's 135-plus special projects, "les Grands Travaux" is cited at CFAF 38.8 billion (USD 77.6 million).

INCREASED REVENUES, DESPITE REDUCED CORPORATE TAX RATE

--- ---------
¶13. Senegal has lowered its overall corporate tax rate from 33 percent to 25 percent, as well as the VAT rate on tourist industries from the standard 18 percent to 14 percent. At the same time, in 2007 GOS expects to increase its domestic revenues by further broadening the tax base and strengthening tax collection efforts, particularly on internal taxes (consumption, services and VAT) and direct taxes (income and corporate tax) collected from the formal sector.

¶14. Total domestic revenue is estimated at CFAF 1,048 trillion (USD 2,096 billion), an increase of 13.1 percent over 2006. This projection is based on the expectation of increases in the following areas: CFAF 23.2 billion (USD 46.4 million) in income taxes, CFAF 16.1 (USD 32.2 million) in corporate taxes, CFAF 42.9 (USD 150.2 million) in value added taxes (VAT), and CFAF 32.3 billion (USD 64.6 million) in trade taxes.

¶15. Non-tax revenues, generally made up of revenues from maritime activities, industrial enterprises, and miscellaneous services, are expected to increase by 23.5 percent to CFAF 52.4 billion (USD 102.7 million). External revenues, such as grants, programs, resources from foreign investment and debenture loans, are projected to

decrease 3.1 percent, from CFAF 417.6 billion in 2006 to CFAF 404.4 billion in 2007 as a result of a projected decrease in foreign aid for development projects.

¶16. To meet its projected fiscal gap of CFAF 22 billion, the GOS is counting on direct budget support from donors in excess of the already programmed total foreign financing of CFAF 283.6 billion (USD 567.2 million), which represents 18.6 percent of the Government's overall budget for 2007. This is down moderately from 22.3 percent in 2006. At the same time, going into 2007 the GOS admits to be in current account arrears of CFAF 56 billion (USD 112 million) for payments owed for goods and services. [NOTE: Some private estimates put the government payment arrears at up to CFAF 200 billion. END NOTE.]

FOREIGN AID DECREASES; REMAINS ESSENTIAL

¶17. The "investment budget," called also budget for "development projects" represents almost 43 percent of total projected spending. However, the GOS is counting on continued high levels of yet-to-be-confirmed foreign donor assistance. For FY 2007, the investment budget calls for Senegal to invest CFAF 390.0 billion (USD 764 million) of its own funds. [NOTE: The investment budget is contained within ministry budgets. END NOTE.] Additional contributions from donors in the amount of CFAF 262 billion (USD 512 million) will be required for the GOS to carry out its planned activities. This assumes a 10.7 percent decrease in donor assistance. The GOS projects that donor assistance will be provided in both grants (35 percent) and loans (65 percent).

¶18. The investment budget is targeted for a moderate increase of 6.2 percent over the previous year and focuses on public social services infrastructure (roads, water, health, and education) and the service sector (tourism, trade, transport, and telecommunications). Smaller allocations target agriculture and manufacturing (industries and mining).

COMMENT

¶19. The GOS should improve its budget and allocation transparency. This is particularly true for clearly reconciling actual expenditures with the budget plan, a valid criticism raised by the political opposition in the national Assembly's debate on the FY 2007 budget. Senegal has not carried out a comprehensive expenditure review since 1997. There is an inherent lack of budgetary discipline and accountability that arises from the failure to reconcile the budget after implementation, and that, in turn, makes it difficult to trust the budget as an accurate indicator of overall fiscal policy.

¶20. This budget clearly reflects President Wade's "top down" administrative program. While increasing public investment, much of that will be costs associated with presidential pet projects and the repayment of political promises with new infrastructure. Similarly, large salary increases, mostly targeting needed political constituencies, and the ever-growing number of presidential special advisors, boards, and councils are a significant drain on the budget. On the positive side, the focus on education responds to a clear need to increase the literacy rate and primary school enrollment in a country where more than 52 percent of the population is under 15 years old. How effectively these resources are used to respond to this need is another question.

¶21. After his reelection on February 25, and efforts to further

weaken the opposition, President Wade is claiming a strong mandate to continue with his programs, and his "budget allocation by decree" style. While Wade is, in many cases, addressing needed public investments, the opaque deal-making and lack of public audit leaves the system open for abuse. We are also concerned about the GOS becoming re-burdened with debt, both to cover the current deficit and to repay even concessional loans tied to major infrastructure projects. These are among the reasons that the Mission will continue to press the GOS to begin negotiations with the IMF on a new monitored program.

¶22. For a data summary of Senegal's 2007 Budget and other Senegal Economic Snapshots, visit Embassy Dakar's unclassified intranet site:

http://dakar.state.gov/htdocs/section/
econSection_snapshots.htm

JACOBS